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State of Montana
Office of the Legislative Auditor
REPORT TO THE LEGISLATURE
BOARD OF INVESTMENTS

Financial-Compliance Audit
For the Fiscal Year Ended June 30, 1988

This report contains one recommendation
related to the board's automated
investment accounting system.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. The Office of the Legislative Auditor issues a biennial Single Audit Report for the state of Montana which fulfills those requirements on a statewide basis. The audit report presented here is therefore not intended to meet all reporting requirements of the Single Audit Act of 1984 and OMB Circular A-128.

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Office of the Legislative Auditor

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JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY


October 1988

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Investments for the fiscal year ending June 30, 1988. Included in this report is one recommendation concerning the board's automated accounting system. The board's response is contained at the end of the report.

We thank the Executive Director and his staff for their assistance and cooperation.

Respectfully submitted,


Scott A. Seacat
Legislative Auditor

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Office of the Legislative Auditor

BOARD OF INVESTMENTS

Financial-Compliance Audit
For the Fiscal Year Ended June 30, 1988

Audit staff involved in this audit include: Jody Bisom, Allyn Clark, Renee Foster, Tori Hunthausen, Jim Manning, and Lorry Parriman.

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STATE OF MONTANA
BOARD OF INVESTMENTS
APPOINTED AND ADMINISTRATIVE OFFICIALS

JUNE 30, 1988

BOARD OF INVESTMENTS

		Term Expires <u>January</u>
W.E. Schreiber, Chairman	Whitefish	1991
Robert L. Batista	Great Falls	1989
J. William Kearns, Jr.	Townsend	1989
Joseph B. Reber	Helena	1989
Patrice LaTourelle	Whitefish	1989
Joel Long	Billings	1989
G. Steven Brown	Helena	1991
Wilbur Scott	Great Falls	1991
Frederick B. Tossberg	Hamilton	1991

ADMINISTRATIVE OFFICIALS

David M. Lewis	Executive Director
James R. Howeth	Investment Officer*
James R. Penner	Assistant Investment Officer

* Retired at the end of fiscal year 1988

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

Page

Recommendation # 1

We recommend the Board of Investments:

- A. Obtain documentation, including flowcharts, of the automated accounting system. 7

Agency Response: Concur. See page 46.

- B. Limit access to ensure unauthorized changes are not made to the system. 7

Agency Response: Concur. See page 46.

- C. Ensure necessary changes/updates are made to the system. 7

Agency Response: Concur. See page 46.

- D. Obtain a detailed user's manual to facilitate in consistent and accurate use of the system. 7

Agency Response: Concur. See page 46.

INTRODUCTION

We performed a financial-compliance audit of the Montana Board of Investments (board) investment activities for the fiscal year ended June 30, 1988. The board's operating expenditures will be included in a separate audit of the Department of Commerce for the two fiscal years ended June 30, 1989. Article VIII, section 13, of the Montana Constitution requires an annual audit of the board and this report represents compliance with the annual audit requirement. The objectives of the audit were to:

- 1) Determine if the board's financial statements fairly present the financial position and results of operations for the fiscal year ended June 30, 1988.
- 2) Determine if the board complied with applicable laws and regulations.
- 3) Review the board's management and investment accounting control systems and make recommendations for improvements in the management and internal controls of the board.
- 4) Determine the implementation status of prior audit recommendations.

This report contains one recommendation to the board. This recommendation addresses an area where the board can improve internal controls and financial reporting. Other areas of concern deemed not to have a significant effect on the successful operations of the board are not specifically included in this report, but have been discussed with the executive director and his staff.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendation made in this report.

BACKGROUND

The Montana Board of Investments was originally created in 1971. Chapter 581, Laws of 1987 abolished the prior Board of Investments and the Montana Economic Development Board and transferred their functions to the new Board of Investments which is assigned to the Department of Commerce for administrative purposes. The board consists of nine members appointed by the Governor and confirmed by the Senate.

The board employs an executive director and an investment officer who in turn hire and manage other board staff. The staff advise the board, implement its decisions, and perform daily investment, economic development and record-keeping functions. Administrative charges to investing members fund the investment operations. These fees are collected from income earned on moneys invested.

The board directs the investment of state funds in accordance with the constitution and laws of the state. The board administers the investment program under the "prudent expert principle" which requires an investment manager to: discharge his duties with the care, skill, prudence, and diligence, under the circumstances prevailing, that a prudent person in a like capacity with the same resources and familiarity exercises; diversify the holdings of each participating fund to minimize the risk of loss and to maximize the rate of return; and discharge his duties solely in the interest of and benefit for the funds forming the unified investment program.

There are three major investment management programs within the board's operations. "All Other Funds" is a combination of approximately 30 agencies' investments which are managed on their behalf by the board. The investments, generally long-term in nature, are managed to produce steady yields over a long period of time.

The "Short-Term Investment Pool" (STIP) provides a short-term investment vehicle to state or local government investors. There is a fixed \$100 unit value for STIP. The purpose of STIP is to provide the highest possible return, yet maintain a highly liquid position. The short-term investment portfolio is managed by the board, and participants may purchase or sell units on a daily basis.

The "Montana Common Stock Pool" (Mont-Comp) is an investment pool designed to allow authorized agencies to participate in the equity market via a diversified pool. The Montana Constitution authorizes only the retirement funds to invest in private corporate capital stock. The board manages the securities in the portfolio, and participants purchase units on a monthly basis.

Along with the responsibility of investing, the board also administers five programs designed to promote the economic development of the state through the Office of Development Finance (ODF) within the board. The following

sections describe the economic development programs administered by the board.

Coal Tax Loan Program

The Coal Tax Loan Program uses a revolving loan strategy. The board makes no direct loans; instead, it purchases loans from approved financial institutions. Coal tax loans may finance the acquisition of land, buildings, or equipment and provide working capital. Loans are made to businesses that have the potential to benefit the Montana economy. The resources available to provide coal tax loans consist of in-state investment of 25 percent of all revenues deposited in the Permanent Coal Tax Trust Fund since June 30, 1983; principal repayments of existing loans made from the Montana In-State Investment Fund, which is comprised of a portion of coal severance taxes collected; and two percent of the annual interest earnings on the Montana In-State Investment Fund for fiscal year 1987-88.

Montana Capital Company Program

The Montana Capital Company Program is designed to make venture capital available within the state. Through the program, the state offers a 50 percent tax credit incentive (up to \$150,000) to investors in qualified Montana capital companies, which in turn must invest these funds in Montana businesses. Four companies were qualified as capital companies as of June 30, 1988. The state issued \$790,500 in tax credits in fiscal year 1987-88.

Industrial Revenue Bond Program

The Pooled and Stand-Alone Industrial Development Bond (IDB) programs serve to provide a source of long-term funds for Montana businesses. The Pooled IDB Program combines the debt financing of a number of smaller businesses into one bond issue. The issuing costs of the bonds are prorated among the borrowers and the interest rate is established when the bonds are sold. Pooled IDB Program loans can finance most commercial, industrial, and real estate development projects. The board did not issue any bonds under the Pooled IDB Program during fiscal year 1987-88.

The board issued refunding bonds on behalf of one borrower in the Stand-Alone IDB program during fiscal year 1987-88. The board acts as a conduit issuer of the bond. These bonds issued under the Stand-Alone IDB program bonds do not constitute a debt or liability to the board or the state of Montana. Therefore, bonds issued under this program are not reflected on ODF financial statements. The scope of this activity is disclosed on page 38, footnote 5 of the ODF financial statements.

Montana Cash Anticipation Financing Program

The Montana Cash Anticipation Financing (MCAF) Program provides tax anticipation financing to local governments. While no bonds were issued under this program during fiscal year 1987-88, the board did assist a group of local governments which issued their tax anticipation notes. If a local government defaults, the board must purchase a refunding note to ensure that the tax anticipation note is paid.

Intermediate Term Capital Pool

In March 1987, the board issued \$6.5 million in series 1987 Intermediate Term Capital Pool (INTERCAP) bonds. These bonds are used to finance intermediate term (two to five years) capital needs of local governments. The estimated borrowing needs of various local governments were pooled and the bonds issued to finance these projects. The cost of issuance is paid by all users of the pool.

PRIOR AUDIT RECOMMENDATIONS

Our prior audit report for the board was issued for the fiscal year ended June 30, 1987. The report contained four recommendations still applicable to the board's operations. The board implemented three recommendations and partially implemented one. The recommendation which was partially implemented pertains to the board's automated accounting system user's manual which is discussed on page 5. Our prior audit report for the Office of Development Finance, formerly Montana Economic Development Board, for the fiscal year ended June 30, 1987, contained no recommendations.

AUTOMATED ACCOUNTING AND INVESTMENT MANAGEMENT SYSTEM

Our three previous audits have discussed the problems and delays associated with the acquisition and implementation of an automated accounting and investment management system. The board has worked to address and correct many of the problems noted in prior audits. On January 30, 1987, the Board of Investments established a new computerized investment accounting system. This system is utilized for both the Short Term Investment Pool (STIP) and the Montana Common Stock Pool (Mont-Comp). During the current audit we noted the following problems with the system:

- 1) There are significant internal control weaknesses in the system and therefore we could not rely on computer processing.
- 2) Unauthorized changes can and have been made to the system by the private firm which developed the system.
- 3) System problems or errors which were not adequately addressed by the firm developing the system.
- 4) The system user's manual does not adequately document how the system works.

The following paragraphs discuss these system problems.

The current system has been under development by a private firm for over two years and as of August 31, 1988, the system had not been flowcharted to document the processing, edits or other necessary information needed to fully understand the system. Since board personnel do not fully understand the workings of the system, it is difficult to determine when a requested change by board personnel has been adequately addressed by the private firm. At the present time, the board staff determines the implementation of a request for a system change through review of the output. According to board personnel the system has not been flowcharted since they believe there are higher priorities which need to be addressed by the private firm. Documentation of the system would assist board personnel in understanding the system and evaluating the need for or impact of any modifications.

Personnel of the private firm have a key to the board's building in order to make changes to the system after regular working hours. All changes which are made to the system are to be authorized by the board personnel in

advance. Since the private firm has access to the building after hours, unauthorized changes can and have been made. During our audit we noted that the treasury note calculation, used for STIP, was figured on a 360 day basis and it should be on a 365 day basis. Board personnel were not aware of this change. According to board personnel, the system was originally set up on a 365 day basis and the change to 360 days was made by the private firm without the approval or knowledge of the board.

We also noted other problems with the system which the board has requested the private firm to fix but as of August 31, 1988, have not been corrected. The Daily Portfolio Listing and Accrual Summary shows only one rate column. The coupon rate and effective rate are not accounted for separately. In the case of premium and discounts, agency personnel have to manually calculate the yield to date since the system has not been programmed to take into account the premium and discounts in the yield calculation. The current system also does not calculate stock splits correctly for Mont-Comp. Board personnel have to make an adjustment to the system to ensure the correct amount is on the system.

During the prior audit we noted the system, which had been in existence for six months, did not have a user's manual. The board received a user's manual from the private firm during fiscal year 1987-88 in response to our prior audit recommendation. A user's manual should provide a central source of information and facilitate in the consistent use of the system. We reviewed the manual and determined it was not adequate to enable a user to utilize the system efficiently. Board personnel indicated an updated version of the user's manual is being prepared by the private firm but, as of August 31, 1988, the board had not received the updated manual.

Subsequent to our current audit work performed at the board, the board approved dropping the current computer system and purchased a new computer package. The new package contains developed programs to run all three portfolios, and is expected to be operational by early 1989. The package cost is \$40,000 with annual maintenance costs of \$4,000. Board officials stated this is a significant savings over the current system. Board personnel have expressed dissatisfaction with the current system and anticipate the new system will solve problems noted during our audit.

With the purchase of the new computer system many of the problems with the current system may no longer exist. However, board officials should ensure any system is documented, access is limited, a user's manual is provided, and the provider is responsive to requests for changes.

RECOMMENDATION # 1

WE RECOMMEND THE BOARD OF INVESTMENTS:

- A. OBTAIN DOCUMENTATION, INCLUDING FLOWCHARTS, OF ITS AUTOMATED ACCOUNTING AND INVESTMENT MANAGEMENT SYSTEM.**
- B. LIMIT ACCESS TO ENSURE UNAUTHORIZED CHANGES ARE NOT MADE TO THE SYSTEM.**
- C. ENSURE NECESSARY CHANGES/UPDATES ARE MADE TO THE SYSTEM.**
- D. OBTAIN A DETAILED USER'S MANUAL TO FACILITATE CONSISTENT AND ACCURATE USE OF THE SYSTEM.**

AUDITOR'S OPINION LETTERS
AND AGENCY FINANCIAL STATEMENTS

SUMMARY OF AUDIT OPINIONS

The auditor's opinions issued on All Other Funds, Short-Term Investment Pool, Montana Common Stock Pool, and Office of Development Finance are intended to convey to the reader of the financial statements the degree of reliance which can be placed on the amounts presented. The Schedule of Investment Income (page 43 through 45) is presented for additional analysis and disclosure purposes as discussed in our opinion on page 42. The reader may rely on the fairness of the amounts presented on the statements listed in paragraph one of each of the auditor's opinions on pages 8, 15, 21 and 27 when analyzing the Board of Investments' investment activities.

STATE OF MONTANA
BOARD OF INVESTMENTS

ALL OTHER FUNDS

FINANCIAL STATEMENTS

JUNE 30, 1988 AND 1987

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Investments Managed for the Montana Board of Investments, All Other Funds as of June 30, 1988 and 1987, and the related Statement of Investment Income and Statement of Changes in Investments Managed for the two fiscal years then ended. These financial statements are the responsibility of Board of Investment's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our report dated October 6, 1987, we expressed an opinion that the fiscal year 1986-87 financial statements did not fairly present the investments managed, investment income, and changes in investments managed in conformity with generally accepted accounting principles because of a departure from such principles; the Board of Investment used the deferral and amortized method in recognizing gains and losses from bond swaps instead of the required completed transaction method for non retirement systems. As described in Note 2, the board has changed its method of accounting for bond swaps and restated its fiscal year 1986-87 financial statements to conform with generally accepted accounting principles. Accordingly, our present opinion on the fiscal year 1986-87 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly, in all material respects, the investments managed by the Montana Board of Investments, All Other Funds as of June 30, 1988 and 1987, and its investment income and changes in its investments managed for the fiscal years then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

August 31, 1988

STATE OF MONTANA BOARD OF INVESTMENTS
ALL OTHER FUNDS
STATEMENT OF INVESTMENTS MANAGED
JUNE 30, 1988 AND 1987

	<u>1988</u>	<u>1987</u>
Investments managed at book value	\$1,883,328,060	\$1,665,434,029
(current value of \$1,903,152,398		
in 1988 and \$1,720,983,180		
in 1987) (Note 2)		
Dividends and interest receivable	45,994,342	41,312,489
Net unamortized deferred losses on		
bond swaps (Note 2)	18,963,032	17,237,972
Interest purchased receivable	<u>1,992,703</u>	<u>1,884,957</u>
TOTAL INVESTMENTS MANAGED	<u>\$1,950,278,137</u>	<u>\$1,725,869,447</u>

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
ALL OTHER FUNDS
STATEMENT OF INVESTMENT INCOME
FOR FISCAL YEARS ENDED JUNE 30, 1988 AND 1987

INCOME:	<u>1988</u>	<u>1987</u>
Interest income	\$186,055,054	\$185,948,644
Dividend income	13,856	19,296
Realized gain on sale of investments	4,798,973	29,883,145
Rental income	<u>14,535</u>	<u>35,438</u>
Total Income	<u>190,882,418</u>	<u>215,886,523</u>
EXPENSES:		
Administrative expenses	(568,427)	(519,372)
Net amortization of deferred losses on bond swaps (Note 2)	<u>(1,951,273)</u>	<u>(1,680,107)</u>
Total Expenses	<u>(2,519,700)</u>	<u>(2,199,479)</u>
NET INVESTMENT INCOME	<u>\$188,362,718</u>	<u>\$213,687,044</u>

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
ALL OTHER FUNDS
STATEMENT OF CHANGES IN INVESTMENTS MANAGED
FOR THE FISCAL YEARS ENDED JUNE 30, 1988 AND 1987

	<u>1988</u>	<u>1987</u>
TOTAL INVESTMENTS MANAGED, BEGINNING OF YEAR	\$1,725,869,447	\$1,871,432,023
Net investment income	\$ 188,362,718	\$ 213,687,044
Income remitted to agencies	<u>(183,680,865)</u>	<u>(214,013,107)</u>
Increase (decrease) in dividends and interest receivable	4,681,853	(326,063)
Interest purchased during the year	5,620,434	4,983,867
Collection of interest purchased during the year	<u>(5,512,688)</u>	<u>(4,595,271)</u>
Increase in interest purchased receivable	107,746	388,596
Net bond swap gains/losses incurred during the year	3,676,333	(2,699,987)
Net amortization of deferred bond swap losses	<u>(1,951,273)</u>	<u>(1,680,107)</u>
Increase (decrease) in net unamortized gains/losses on bond swaps	1,725,060	(4,380,094)
Increase in book value of investments due to net amortization of discounts and premiums	3,759,619	2,342,010
Investments purchased	7,830,594,023	10,147,748,975
Investments sold, matured, and called	<u>(7,616,459,611)</u>	<u>(10,291,336,000)</u>
Increase (decrease) in book value of investments purchased	<u>214,134,412</u>	<u>(143,587,025)</u>
TOTAL INVESTMENTS MANAGED, END OF YEAR	<u>\$1,950,278,137</u>	<u>\$1,725,869,447</u>

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
ALL OTHER FUNDS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1988 AND 1987

1. HISTORY AND ORGANIZATION

The state of Montana Board of Investments (the Board) was created by an act of the Legislature as sole authority to invest and manage State funds in accordance with the laws and Constitution of the State of Montana. The investments and the income therefrom are owned by various State of Montana agencies and managed on their behalf by the Board.

The Board operates under the "prudent expert principle" diversifying holdings of each fund to minimize risk of loss and maximize rate of return. Common Stock purchases are restricted to pension funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

Investments are presented in the Statement of Investments Managed at book value (original cost adjusted for discount and premium amortization where applicable). Premium and discounts are amortized using the straight-line method over the life of the securities. An average life of eight years is used for amortization of mortgage discounts.

Current values for publicly traded securities are determined primarily by reference to market prices supplied to the Board by various brokerage houses. The investments managed relate principally to investments which will be held or otherwise disposed of at no significant loss to the fund.

Bond Swaps

Bond swaps involve trading one security for another security having the same par value for the purpose of enhancing portfolio content and/or yield. For pension funds, the Board defers gains and losses resulting from bond swaps and amortizes such gains and losses over the shorter of either the remaining life of the bonds sold or the replacement bonds purchased. As shown in the accompanying financial statements the accumulated net unamortized deferred loss on bond swaps was \$18,963,032 at June 30, 1988 and \$17,237,972 at June 30, 1987. The net amortization of the deferred losses on bond swaps for June 30, 1988 was \$1,951,273 and for June 30, 1987 was \$1,680,107.

Beginning in 1988, the Board uses the completed transaction method in the accompanying financial statements for funds other than public employee retirement systems. The 1987 financial statements have been restated to reflect this change.

3. INVESTMENTS NOT UNDER DIRECT CONTROL

Land and buildings, the costs of which are also included in investments managed in the accompanying financial statements, are not under direct control of the Board. The agencies administering these assets maintain control and provide the Board with the necessary financial information. Rental income from these buildings is included in the Statement of Investment Income; however, occupancy and depreciation charges relating to the buildings are not material and have not been included in the Statement of Investment Income.

The book value of land and buildings included in investments managed in the accompanying financial statements was \$242,086 at June 30, 1988 and \$250,265 at June 30, 1987.

4. SECURITIES LENDING

The Board has an agreement with the Chase Manhattan Bank (Chase) whereby Chase would loan to other entities securities managed by the Board. During the period the securities are on loan, the Board receives a fee and Chase must maintain collateral equal to 102 percent of the market value of the securities loaned. The Board retains all rights and risks of ownership during the loan period. Included in interest income in the accompanying financial statements is \$514,067 for the year ended June 30, 1988 and \$418,328 for the year ended June 30, 1987 of income from securities lending activities. At June 30, 1988 approximately \$77,086,750 and at June 30, 1987 approximately \$152,042,077 of securities included in these financial statements had been loaned by Chase to other entities.

5. LOAN GUARANTEES

On June 26, 1986 and January 30, 1987 the Board of Investments (Board) entered into irrevocable loan agreements with the Office of Development Finance (ODF) to lend money to ODF for deposit to the debt service reserve fund in amounts equal to the deficiency therein.

Bonds covered by this agreement were issued for \$27,480,000 on July 15, 1986 in the Cash Anticipation Financing Program and \$6,500,000 on March 16, 1987 in the Intermediate Term Capital Program. Maturity dates of the bonds are December 30, 1988 and March 1, 1995, respectively.

6. INVESTMENT RISK CATEGORIES

State of Montana investments are categorized to give an indication of the level of risk assumed at June 30, 1988. Category 1 includes investments that are insured or registered or securities that are held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered, with securities held by the counterparty trust department or agent in the entity's name.

Long-term investments are carried at book value and short-term investments are carried at original cost.

LONG-TERM INVESTMENTS

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Government Securities	\$ 301,548,177	\$52,789,634	\$ 354,337,811	\$ 372,634,377
Corporate Bonds	1,242,824,603	22,220,143	1,265,044,746	1,257,034,881
Canadian Bonds	83,484,622	100,106	83,584,728	93,639,448
Mortgages	119,145,652		119,145,652	119,145,652
Other Bonds	<u>1,334,365</u>	<u> </u>	<u>1,334,365</u>	<u>1,334,365</u>
TOTAL LONG-TERM	<u>\$1,748,337,419</u>	<u>\$75,109,883</u>	<u>\$1,823,447,302</u>	<u>\$1,843,788,723</u>

SHORT-TERM INVESTMENTS

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Corporate Stocks	\$ 409,258		\$ 409,258	\$ 267,175
Repurchase Agreements	50,467,000		50,467,000	50,467,000
Venture Capital		\$ 537,500	537,500	537,500
Leverage Buy-Outs	<u> </u>	<u>8,467,000</u>	<u>8,467,000</u>	<u>8,092,000</u>
TOTAL SHORT-TERM	<u>\$ 50,876,258</u>	<u>\$ 9,004,500</u>	<u>\$ 59,880,758</u>	<u>\$ 59,363,675</u>
GRAND TOTAL	<u>\$1,799,213,677</u>	<u>\$84,114,383</u>	<u>\$1,883,328,060</u>	<u>\$1,903,152,398</u>

STATE OF MONTANA
BOARD OF INVESTMENTS

SHORT-TERM INVESTMENT POOL

FINANCIAL STATEMENTS

JUNE 30, 1988 AND 1987



STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value for the Montana Board of Investments, Short-Term Investment Pool as of June 30, 1988 and 1987, and the related Statement of Investment Income and Distributions, and Statement of Changes in Net Asset Value for the two fiscal years then ended. These financial statements are the responsibility of Board of Investment's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the Montana Board of Investments, Short-Term Investment Pool as of June 30, 1988 and 1987, and its investment income and changes in its net asset value for the fiscal years then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

August 31, 1988

STATE OF MONTANA BOARD OF INVESTMENTS
SHORT-TERM INVESTMENT POOL
STATEMENT OF NET ASSET VALUE
JUNE 30, 1988 AND 1987

	<u>1988</u>	<u>1987</u>
Cash	\$ 1,363	\$ 144,730
Accounts receivable		625,653
Interest receivable	7,154,821	4,449,718
Investments managed at cost	610,316,135	630,121,350
(approximate market value of		
\$613,635,499 in 1988 and		
\$633,941,618 in 1987)		
	<u> </u>	<u> </u>
TOTAL ASSETS	\$617,472,319	\$635,341,451
Accrued expenses		(22,346)
Income due participants	<u>(151,119)</u>	<u>(141,705)</u>
NET ASSET VALUE	<u>\$617,321,200</u>	<u>\$635,177,400</u>
Units outstanding	6,173,212	6,351,774
Unit value	\$100	\$100

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
SHORT-TERM INVESTMENT POOL
STATEMENT OF INVESTMENT INCOME AND DISTRIBUTIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 1988 AND 1987

	<u>1988</u>	<u>1987</u>
Interest income	\$44,121,308	\$21,423,309
Administrative expenses (Note 2)	(173,333)	(271,016)
Income purchased by participants	2,234,392	3,727,233
Income due participants, beginning of year	141,705	3,843
Income due participants, beginning of year (Note 1)		<u>1,105,839</u>
Income available for distribution	<u>\$46,324,072</u>	<u>\$25,989,208</u>
Income distributed on units sold (Note 2)	\$ 3,091,835	\$ 5,269,809
Distribution (Note 2)	<u>43,081,118</u>	<u>20,577,694</u>
Total distributions	<u>\$46,172,953</u>	<u>\$25,847,503</u>
Income due participants, end of year	\$ <u>151,119</u>	\$ <u>141,705</u>

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
SHORT-TERM INVESTMENT POOL
STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 1988 AND 1987

	<u>1988</u>	<u>1987</u>
Net asset value, beginning of year	\$ 635,177,400	\$ 16,288,300
Net asset value, beginning of year (Note 1)		187,188,516
Value of units purchased by participants	1,014,496,000	1,146,964,369
Changes in current value of investments managed		(867,821)
Value of units sold by participants	(1,032,352,200)	(714,395,964)
Net asset value, end of year	\$ <u>617,321,200</u>	\$ <u>635,177,400</u>

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS

SHORT-TERM INVESTMENT POOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 1988 AND 1987

1. HISTORY AND ORGANIZATION

The state of Montana Board of Investments (the Board) was created by an act of the Legislature to invest and manage the state of Montana's investment funds on a centralized basis.

The Short-Term Investment Pool II (STIP II) was implemented on May 31, 1985 for local government participation. On January 30, 1987, Short-Term Investment Pool (STIP) participants sold their STIP units and purchased STIP II units. This conversion resulted in a single fixed unit value Short-Term Investment Pool, called STIP. The 1987 financial statements report two amounts for beginning of year income due participants and beginning net asset value. The amounts reflect the investment pools prior to the conversion.

The purpose of STIP is to obtain the highest possible return, yet maintain a highly liquid position whereby funds may be invested for relatively short periods, one day or more, depending upon the participant's anticipated use of the funds. The investments and the income of STIP are owned by the participants as they purchase units and are managed on their behalf by the Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The STIP unit value is fixed at \$100. The total price to buy or sell a unit is \$100 plus income accrued per unit since the last distribution. Income is distributed on the last business day of each month. Participants have the option of having the income automatically reinvested in additional units.

A unit purchased by a participant begins accruing income on the day it is purchased and ceases to accrue income on the day before the unit is sold. Participants who sell units between distribution dates receive the respective investment income in the total price of the unit on the date of sale.

Administrative expenses incurred by the Board are charged to STIP daily based on the Board's expenses applicable to STIP.

The portfolio of investments in STIP is kept under one year in maturity and is carried at cost or amortized cost where applicable. This portfolio structure allows for the fixing of the worth of the unit.

3. SECURITIES LENDING

The Board has an agreement with the Chase Manhattan Bank (Chase) whereby Chase would loan to other entities securities managed by the Board. During the period the securities are on loan, the Board receives a fee and Chase must maintain collateral equal to 102 percent of the market value of the securities loaned. The Board retains all rights and risks of ownership during the loan period. Included in interest income in the accompanying financial statements is \$57,872 for the year ended June 30, 1988 and \$6,130 for the year ended June 30, 1987 of income from securities lending activities. At June 30, 1988 approximately \$80,758,105 and at June 30, 1987 approximately \$16,686,750 of securities included in these financial statements had been loaned by Chase to other entities.

4. INVESTMENT RISK CATEGORIES

State of Montana investments are categorized to give an indication of the level of risk assumed at June 30, 1988. Category 1 includes investments that are insured or registered or securities that are held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered, with securities held by the counterparty trust department or agent in the entity's name.

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Bankers'				
Acceptances	\$239,330,475		\$239,330,475	\$241,150,366
Commercial Paper	103,424,685		103,424,685	104,176,220
Corporate				
Obligations	69,953,090		69,953,090	69,745,630
Montana Certifi-				
cates of Deposits	6,108,789		6,108,789	6,108,789
Government				
Securities	60,207,991	\$80,758,105	140,966,096	141,921,494
Repurchase				
Agreements	<u>50,533,000</u>		<u>50,533,000</u>	<u>50,533,000</u>
	<u>\$529,558,030</u>	<u>\$80,758,105</u>	<u>\$610,316,135</u>	<u>\$613,635,499</u>

STATE OF MONTANA
BOARD OF INVESTMENTS

MONTANA COMMON STOCK POOL

FINANCIAL STATEMENTS

JUNE 30, 1988 AND 1987



STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Asset Value for the Montana Board of Investments, Montana Common Stock Pool as of June 30, 1988 and 1987, and the related Statement of Investment Income and Distributions, and Statement of Changes in Net Asset Value for the two fiscal years then ended. These financial statements are the responsibility of Board of Investment's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value of the Montana Board of Investments, Montana Common Stock Pool as of June 30, 1988 and 1987, and its investment income and changes in its net asset value for the fiscal years then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

August 31, 1988

STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA COMMON STOCK POOL
STATEMENT OF NET ASSET VALUE
JUNE 30, 1988 AND 1987

	<u>1988</u>	<u>1987</u>
Cash	\$ 118	\$ 93
Dividend receivable	767,823	493,244
Interest receivable	15,841	15,565
Investments managed at current value (cost of \$169,198,171 in 1988 and \$150,293,791 in 1987)	255,144,518	253,608,907
 TOTAL ASSETS	 <u>\$255,928,300</u>	 <u>\$254,117,809</u>
 Income due participants	 <u>(32,935)</u>	 <u>(16,005)</u>
 NET ASSET VALUE	 <u>\$255,895,365</u>	 <u>\$254,101,804</u>
 Units outstanding	 119,074	 114,289
Unit value	\$2,149.04	\$2,223.33

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA COMMON STOCK POOL
STATEMENT OF INVESTMENT INCOME AND DISTRIBUTIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 1988 AND 1987

	<u>1988</u>	<u>1987</u>
Interest income	\$12,308,716	\$10,402,560
Administrative expenses	(339,550)	
Income due participants, beginning of year	<u>16,005</u>	<u>3,442</u>
Income available for distribution	11,985,171	10,406,002
Distribution (Note 2)	(<u>11,952,236</u>)	(<u>10,389,997</u>)
Income due participants, end of year	\$ <u><u>32,935</u></u>	\$ <u><u>16,005</u></u>

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
MONTANA COMMON STOCK POOL
STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FISCAL YEARS ENDED JUNE 30, 1988 AND 1987

	<u>1988</u>	<u>1987</u>
Net asset value, beginning of year	\$254,101,804	\$220,542,602
Value of units purchased by participants (Note 2)	9,405,659	46,118
Changes in current value of investments managed	<u>(7,612,098)</u>	<u>33,513,084</u>
Net asset value, end of year	<u>\$255,895,365</u>	<u>\$254,101,804</u>

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS

MONTANA COMMON STOCK POOL

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 1988 AND 1987

1. HISTORY AND ORGANIZATION

The state of Montana Board of Investments (the Board) was created by an act of the Legislature to invest and manage the state of Montana's investment funds on a centralized basis. The Montana Common Stock Pool (Mont-Comp) was created in order to allow smaller retirement funds the opportunity to participate in the equity market via a diversified pool.

Mont-Comp was created as of July 1, 1980 by the transfer from All Other Funds to Mont-Comp all common stock owned by the Public Employees' Retirement System and the Teachers' Retirement System.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Public Employees' Retirement System and the Teachers' Retirement System transferred virtually all stock owned into Mont-Comp at the start-up date and were issued units according to the market value of their contribution, retaining their original total cost basis.

The initial unit value as of July 1, 1980 was \$1,000. Unit values thereafter are calculated once a month at the close of the last business day of the month based upon the market value of the Mont-Comp equity holdings and other assets. Participants may only buy or sell units on the first business day of each month.

Mont-Comp distributes to each participant investment income on the last business day of each month. This distribution is based on the full accrual basis so that all dividends and interest accrued during the month are returned to the participants based on the number of their units outstanding.

Beginning in 1988, administrative expenses incurred by the Board are charged to Mont-Comp monthly based on the Board's expenses applicable to Mont-Comp.

3. SECURITIES LENDING

The Board has an agreement with the Chase Manhattan Bank (Chase) whereby Chase would loan to other entities securities managed by the Board. During the period the securities are on loan, the Board receives a fee and Chase must maintain collateral equal to 102 percent of the market value of the securities loaned. The Board retains all rights and risks of ownership during the loan period. Included in interest income in the accompanying financial statements is \$14,513 for the year ended June 30, 1988 and \$9,727 for the year ended June 30, 1987 of income from securities lending activities. At June 30, 1988 approximately \$6,787,792 and at June 30, 1987 approximately \$1,171,775 of securities included in these financial statements had been loaned by Chase to other entities.

4. INVESTMENT RISK CATEGORIES

State of Montana investments are categorized to give an indication of the level of risk assumed at June 30, 1988. Category 1 includes investments that are insured or registered or securities that are held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered, with securities held by the counterparty trust department or agent in the entity's name.

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Carrying Value</u>	<u>Market Value</u>
Corporate Stocks	\$100,056,779	\$6,787,792	\$106,844,571	\$192,790,918

STATE OF MONTANA
BOARD OF INVESTMENTS

OFFICE OF DEVELOPMENT FINANCE

FINANCIAL STATEMENTS

JUNE 30, 1988



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial statements of the Enterprise Fund and Non-Expendable Trust Funds of the Montana Board of Investments, Office of Development Finance as of and for the fiscal year ended June 30, 1988, as listed in the table of contents. These financial statements are the responsibility of Board of Investment's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Investments, Office of Development Finance as of June 30, 1988, and the results of operations and the changes in financial position of its Enterprise and Non-Expendable Trust Funds for the fiscal year then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

August 31, 1988

STATE OF MONTANA BOARD OF INVESTMENTS
OFFICE OF DEVELOPMENT FINANCE
ENTERPRISE FUND
BALANCE SHEET AS OF JUNE 30, 1988

Assets

Current:

Cash in Treasury	\$ 2,172
Cash with Fiscal Agent	16,230
Interest Receivable	304,285
Investments	30,645,682
Prepaid Expenses	<u>391</u>

Total Current 30,968,760

Long Term:

Notes/Loan Receivable	9,034,092
Investments	1,145,834
Capitalized Cost of Issue	453,381
Equipment	34,264
Accumulated Depreciation	<u>(13,448)</u>

Total Long Term 10,654,123

TOTAL ASSETS \$41,622,883

Liabilities

Current:

Accounts Payable	\$ 1,959
Due to Other Funds	9,056
Accrued Expenses	176
Accrued Interest Payable	406,776
Current Notes/Bonds Payable	33,725,000
Prepaid Interest	<u>5,232</u>

Total Current 34,148,199

Long Term:

Bonds Payable	6,695,000
Compensated Absences	5,136
Deferred Cost of Issue Recovery	<u>348,676</u>

Total Long Term 7,048,812

Total Liabilities 41,197,011

Retained Earnings 425,872

TOTAL LIABILITIES & EQUITY \$41,622,883

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
OFFICE OF DEVELOPMENT FINANCE
ENTERPRISE FUND
STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

Revenue

Application Fee	\$ 1,079
Bond Issue Fee	95,000
Investment Earnings	3,154,754
Cost of Issue Recovery	64,679
Gain on Sale of Securities	<u>14,646</u>
 Total Revenue	 <u>3,330,158</u>

Expenses

Personal Services	37,283
Contracted Services	8,958
Supplies and Materials	1,457
Communications	3,252
Travel	2,919
Rent	4,646
Indirect/Administrative Costs	5,112
Other	632
Depreciation Expense	4,475
Debt Service	2,928,419
Loss on Sale of Assets	<u>2,900</u>
 Total Expenses	 <u>3,000,053</u>
 Net Income	 <u>330,105</u>
 Retained Earnings July 1, 1987	 97,682
 Prior Period Adjustment	 <u>(1,915)</u>
 Adjusted Retained Earnings July 1, 1987	 <u>95,767</u>
 Retained Earnings June 30, 1988	 \$ <u>425,872</u>

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
OFFICE OF DEVELOPMENT FINANCE
ENTERPRISE FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

Sources of Working Capital

Operations:

Net Income	\$ 330,105
Depreciation	4,475
Amortization of Cost of Issue	203,270
Amortization of T-Bond Premium	<u>1,930</u>
Total From Operations	<u>539,780</u>

Other:

Sale of Investments	82,663
Sale of Equipment	<u>1,536</u>
Total Other	<u>84,199</u>

Total Sources of Working Capital	<u>623,979</u>
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Uses of Working Capital

New Loans	273,139
Repay Inter-Entity Loan	150,000
Bonds Payable (Note 5C)	28,325,000
Compensated Absences	27,856
Recognition of Deferred Cost of Issue	19,068
Other	<u>3,073</u>
Total Uses of Working Capital	<u>28,798,136</u>

NET DECREASE IN WORKING CAPITAL	<u>\$28,174,157</u>
---------------------------------	---------------------

Elements of Net Decrease in Working Capital

Cash in Treasury	\$ (49,005)
Cash with Fiscal Agent	(2,177,944)
Interest Receivable	183,947
Notes/Loans Receivable	(307,094)
Due from Other Funds	(3,145)
Interest Purchased	(18,232)
Investments	1,345,509
Prepaid Expenses	(126)
Accounts Payable	831
Due to Other Funds	9,499
Accrued Expenses	14
Accrued Interest	(108,179)
Bonds Payable (Note 5C)	(27,045,000)
Prepaid Interest	<u>(5,232)</u>

NET DECREASE IN WORKING CAPITAL	<u>\$28,174,157</u>
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The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
OFFICE OF DEVELOPMENT FINANCE
NON-EXPENDABLE TRUST FUNDS
BALANCE SHEET AS OF JUNE 30, 1988

<u>Assets</u>	Montana In-State <u>Investment</u>	Loan Loss <u>Reserve</u>
Current:		
Cash in Treasury	\$ 193,969	\$ 43,376
Interest Receivable	382,950	31
Due from Other Funds	515,368	6,608
Investments	<u>21,195,300</u>	<u>155,600</u>
Total Current	<u>22,287,587</u>	<u>205,615</u>
Long-Term:		
Notes/Loans Receivable	<u>28,257,708</u>	
Total Long-Term	28,257,708	
TOTAL ASSETS	<u>\$50,545,295</u>	<u>\$205,615</u>
<u>Liabilities and Fund Balance</u>		
Current:		
Due to Other Funds	\$ 616,048	\$ 100
Property Held in Trust	<u> </u>	<u>300</u>
Total Current	616,048	400
Fund Balance Reserved	<u>49,929,247</u>	<u>205,215</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$50,545,295</u>	<u>\$205,615</u>

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
OFFICE OF DEVELOPMENT FINANCE
NON-EXPENDABLE TRUST FUNDS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

	<u>Montana In-State Investment</u>	<u>Loan Loss Reserve</u>
<u>Revenue</u>		
Application Fees	\$	\$ 37,871
Investment Earnings	<u>3,345,616</u>	<u>9,738</u>
Total Revenue	<u>3,345,616</u>	<u>47,609</u>
Income Before Transfers	3,345,616	47,609
Operating Transfers In	8,624,358	43,523
Operating Transfers Out	<u>3,279,574</u>	<u> </u>
Net Income	<u>8,690,400</u>	<u>91,132</u>
Fund Balance as of July 1, 1987	<u>41,238,847</u>	<u>114,083</u>
Fund Balance as of June 30, 1988	<u>\$49,929,247</u>	<u>\$205,215</u>

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
OFFICE OF DEVELOPMENT FINANCE
NON-EXPENDABLE TRUST FUNDS
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

	<u>Montana</u> <u>In-State</u> <u>Investment</u>	<u>Loan</u> <u>Loan</u> <u>Reserve</u>
<u>Sources of Working Capital</u>		
Net Income	\$8,690,400	\$91,132
<u>Uses of Working Capital</u>		
Loans Receivable	<u>5,870,743</u>	
Total Uses	<u>5,870,743</u>	
Net Increase in Working Capital	<u>\$2,819,657</u>	<u>\$91,132</u>
<u>Elements of Net Increase</u> <u>in Working Capital</u>		
Cash in Treasury	\$ 164,406	\$40,617
Interest Receivable	346,515	(543)
Due from Other Funds	515,368	6,608
Investments	1,935,800	44,400
Due to Other Funds	(142,432)	(100)
Property Held in Trust	<u> </u>	<u>150</u>
Net Increase in Working Capital	<u>\$2,819,657</u>	<u>\$91,132</u>

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA
BOARD OF INVESTMENTS
OFFICE OF DEVELOPMENT FINANCE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 1988

1. MERGER WITH MONTANA BOARD OF INVESTMENTS

The 1987 Legislature passed Senate Bill 298, Chapter 581, Laws of 1987, which combined the staffs of the Montana Economic Development Board (MEDB) and the Board of Investments. A new Board was appointed by the Governor and is called the Board of Investments. The MEDB's programs and responsibilities transferred to the new Board of Investments under the Office of Development Finance (ODF).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The Office of Development Finance uses the accrual basis of accounting for the Enterprise and Non-Expendable Trust Funds. Under the accrual basis of accounting, expenses are recorded when incurred and revenues are recorded when earned.

The financial statements are prepared from the Statewide Budgeting and Accounting System (SBAS) with adjustments, and information contained in the bond trustee statements. The statements include the financial activity administered by the Board of Investments, Office of Development Finance (ODF), in the Enterprise and Non-Expendable Trust Funds. Accordingly, these financial statements are not intended to fairly present the financial position, results of operations, or changes in financial position of the state of Montana.

b. Presentation of Funds and Programs Contained Therein

The ODF uses two types of funds, the Enterprise and Non-Expendable Trust.

Enterprise Fund

The ODF uses the Enterprise Fund to account for its Development Finance Programs which include municipal financing for local governments and long-term fixed-rate financing for businesses.

The following programs are considered municipal finance activities:

- Montana Cash Anticipation Financing (MCAF) which provides tax anticipation financing to local governments.
- Intermediate Term Capital Pool (INTERCAP) provides funds to local governments to finance two to five year capital expenditures.

The business finance program is:

- Industrial Development Bond Program (IDB) provides funds to purchase economic development loans.

The Industrial Development Bond Program sells bonds to create the funds necessary to finance the projects eligible for that program. Bonds were not issued during fiscal year 1988 as the enabling federal legislation for tax-exempt IDB's sunset in December 1986.

Non-Expendable Trust Fund

The Montana In-State Investment Fund (MISIF) represents a portion of the constitutionally dedicated Coal Tax Trust Fund made up from deposits of a portion of coal severance taxes collected. Initiative 95, passed by voters in November 1982, stated that 25 percent of the funds deposited in the Coal Severance Tax Trust Fund will be invested in Montana. As a result, the MISIF was created. The MISIF is a Non-Expendable Trust Fund. During fiscal year 1988, \$8,624,358 of coal severance tax collections were transferred to the MISIF.

The interest earnings of the MISIF were appropriated by the Legislature to the MISIF and the General Fund. The allocation of interest to the two funds has varied in the past. The allocation of interest earnings for fiscal year 1988 was 98 percent to the General Fund and 2 percent to the MISIF.

Currently, application fees and two percent of the interest earnings on MISIF loans are deposited to the Loan Loss Reserve Fund (LLRF).

The purpose of the Loan Loss Reserve Fund is to protect the Montana In-State Investment Fund from losses. The Loan Loss Reserve Fund is also accounted for as a Non-Expendable Trust Fund.

c. Annual and Sick Leave

Annual and sick leave costs are recorded when leave is taken and then adjusted at year-end for the outstanding liability. Upon termination, qualifying employees with unused accumulated annual and sick leave receive 100 percent payment for annual leave and 25 percent payment for sick leave.

d. Fixed Asset Depreciation

Fixed assets are recorded in the Development Finance Program. The assets are depreciated on a straight-line basis, with salvage value, in accordance with state policy.

3. EMPLOYEES' RETIREMENT SYSTEM

Office of Development Finance employees are covered by the Public Employees' Retirement System, which is administered by the state of Montana. Under this system, the state contributes 6.417 percent of an employee's gross wages, while the employee contributes 6 percent of his/her wages. The ODF's contribution to the retirement system for the fiscal year ended June 30, 1988, was \$3,288.

4. INVESTMENTS

The deposits and investments in the Enterprise Fund are restricted by the bond trust indentures to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. Deposits and investments in the other funds must be made with Montana banks or in the Short-Term Investment Pool (STIP) of the Montana Board of Investments. The deposits and investments are combined on ODF's financial statements.

Deposits. At year end, the Enterprise Fund had \$27,509,112 in deposits with trustee. These funds were fully collateralized with securities held by

ODF's Trustee in ODF's name. The other funds held no deposits during the year.

Investments. The long-term investments are carried at amortized cost and the short-term investments are carried at cost. A summary of the ODF's investments by fund and security type follows:

	<u>Short-Term Investments</u>		
	<u>Government Securities</u>	<u>Investment Pools</u>	<u>Totals</u>
<u>Enterprise Fund</u>			
Carrying Amount	\$1,851,420	\$ 1,285,150	\$ 3,136,570
Market Value	1,865,793	1,285,150	3,150,943
<u>Non-Expendable Trust Fund (MISIF)</u>			
Carrying Amount		21,195,300	21,195,300
Market Value		21,195,300	21,195,300
<u>Non-Expendable Trust Fund (LLRF)</u>			
Carrying Amount		155,600	155,600
Market Value		155,600	155,600
<u>TOTALS</u>			
Carrying Amount	\$1,851,420	\$22,636,050	\$24,487,470
Market Value	1,865,793	22,636,050	24,501,843

	<u>Long-Term Investments</u>		
	<u>Government Securities</u>		<u>Totals</u>
<u>Enterprise Fund</u>			
Carrying Amount	\$1,145,834		\$ 1,145,834
Market Value	1,314,892		1,314,892

The ODF's investments in government securities are held by the ODF's Trustee in the ODF's name.

5. BOND ISSUES

a. "Pooled" Industrial Revenue Bonds

ODF issues bonds for the purpose of providing funds to purchase economic development loans in the state of Montana. The bonds are limited obligations of ODF payable solely from and secured by revenues and assets of ODF. The state's liability is limited to only the pledged assets of ODF.

Included within the revenues and assets of the fund are the amounts deposited in the fund reserve accounts. If the balance in the Capital Reserve Account falls below the amount established by the indenture, the Governor is required to request that the legislature appropriate funds to restore the balance. The Legislature may, but is not legally obligated to, appropriate funds to correct any deficiency.

A summary of ODF's fully registered bonds is as follows:

<u>Bond Issue</u>	<u>Date Issued</u>	<u>Amount</u>	<u>Interest Dates</u>	<u>Series Retirement Dates</u>
1984 Series A-G	12/15/84	\$3,650,000	3/15 & 9/15	3/86 - 3/06
1985 Series A-L	10/15/85	4,925,000	3/15 & 9/15	3/87 - 3/07

In accordance with the provisions of the Indenture of Trust, Series J of the 1985 Bond Issue Series A-L was recalled on March 15, 1986 and Series B was recalled on December 15, 1987.

Outstanding Balances on bond issues as of June 30, 1988 are as follows:

<u>Bond Issue</u>	<u>Current</u>	<u>Long Term</u>
1984 Series A-G	\$90,000	\$3,395,000
1985 Series A-L*	65,000	3,300,000

* Excluding Series B & J, previously retired.

b. "Stand-Alone" Industrial Revenue Bonds

The ODF issued bonds on behalf of one borrower under the Stand-Alone Program during fiscal year 1988. The bonds issued under this program do not constitute a debt or liability to the Board or the state of Montana. Assets

and revenues of this borrower are pledged to repay the bonds. Accordingly, the Stand-Alone bond issue is not recorded on ODF's financial statements.

The following Stand-Alone Industrial Revenue bonds were issued:

Zenith Management Company	\$4,485,000
---------------------------	-------------

c. Montana Cash Anticipation Financing (MCAF) Bonds

The ODF issued \$27.480 million in bonds on July 15, 1986. The bonds mature on December 30, 1988, consequently, the bonds have been transferred to current liabilities as of the balance sheet date. Bonds are not subject to redemption prior to maturity. The bonds are limited obligations of the ODF and are not a debt or liability of the state of Montana. The bonds are payable from repayments of principal and interest on Tax or Revenue Anticipation Notes purchased by the ODF from participating local government units.

The Series 1986 Bonds are secured by an irrevocable loan agreement between the ODF and the Montana Board of Investments which authorizes the Bond Trustee to request from the Board of Investments, and requires the Board of Investments to lend money for deposit in the ODF's Montana Cash Anticipation Financing Program Reserve Account B in an amount equal to any deficiencies therein for payment of principal and interest on the Series 1986 Bonds.

d. Intermediate Term Capital Pool (INTERCAP)

On March 16, 1987, \$6.5 million was issued in Series 1987 Variable Rate Demand Bonds which will be due March 1, 1995. These bonds may be redeemed, at the bondholder's option, any March 1 prior to maturity. The ODF did not enter into an arms-length financing agreement to convert bonds "put" but not resold into some other form of long-term obligation. Accordingly, these bonds have been recorded as current liabilities of the Enterprise Fund.

The Series 1987 bonds are limited obligations of the ODF and are payable solely from the following: 1) repayments of principal and interest on loans made by the ODF to the local governments; 2) investment income; and 3) amounts derived from an irrevocable Loan Agreement. The agreement

authorizes the Trustee to request funds from the Board of Investments for deposit to the reserve account in an amount equal to any deficiencies therein for payment of principal and interest on the Series 1987 bonds. These bonds are not a debt or liability of the state of Montana.

The ODF retired \$410,000 in INTERCAP bonds during fiscal year 1988.

6. LOANS PAYABLE

The Board paid off the \$150,000 loan to the Development Finance Fund from the General Fund. The purpose of the loan was to fund the costs of operation for the account until earnings on bond proceeds are available to cover the costs of operation associated with the account. The Board was able to pay off the loan one year before the due date of June 1989.

7. TRANSFERS

The Coal Severance Tax collection transfers are the current year's portion of the coal severance taxes allocated to the Development Finance Program. The investment earnings of the Montana In-State Investment Fund are transferred to the Loan Loss Reserve and the General Fund.

8. COAL TAX LOAN COMMITMENTS

The Board makes firm commitments to fund loans from the Montana In-State Investment Fund. These commitments have expiration dates and may be extended according to the Board's administrative rules. As of June 30, 1988, the Board had committed to purchase loans from Montana lenders totalling \$2,451,898.

9. SUBSEQUENT EVENTS

On July 14, 1988, the Board issued \$5,000,000 in Series 1988 Bonds under the Intermediate Term Capital Program. The Bonds have an annual Adjustable Rate Tender Option with an initial rate of 5.375 percent. The Series 1988 issue is structured like the series 1987 Intermediate Term Capital Program.

On August 16, 1988, the Board issued \$4,976,214 in Series 1988 Bonds under the new program called the Irrigation District Pooled Loan Program.

The bonds are issued under the Municipal Finance Consolidation Account. A portion of the bonds are serial and will retire annually from August 1, 1989 through August 1, 2003. The bonds have various interest rates depending on maturity dates and type of bonds. The remainder of the bonds are capital appreciation bonds that retire each year beginning on August 1, 1997 and ending on August 1, 2004.

On August 9, 1988, the Board issued \$17,365,000 of Municipal Finance Consolidation Act Bonds. These bonds are not a debt or liability of the state of Montana, and neither the faith and credit nor the taxing power of the state of Montana is pledged to the payment of the principal or interest on the Series 1988 Bonds. These bonds are limited obligations of the Board of Investments payable solely from: 1) investment income; 2) repayments of principal and interest on notes issued to the Board of Investments by participating local government units; and 3) an irrevocable pledge of the Board of Investments to lend money for deposit by the Trustee in the Montana Cash Anticipation Financing Program Reserve Account D in an amount equal to any deficiencies therein for payment of principal and interest on the Series 1988 Bonds.

STATE OF MONTANA

BOARD OF INVESTMENTS

SCHEDULE OF INVESTMENT INCOME

FOR THE FISCAL YEAR ENDED JUNE 30, 1988

(Supplementary Information)

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the All Other Funds, Short-Term Investment Pool, and Montana Common Stock Pool financial statements of the Montana Board of Investments for the two years ended June 30, 1988 and 1987 as listed in the table of contents, and have issued our reports thereon dated August 31, 1988. Our examination was made in accordance with generally accepted auditing standards and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination was made for the purpose of forming an opinion on the basic financial statements of the Board of Investments for the All Other Funds, Short-Term Investment Pool, and Montana Common Stock Pool investment management programs taken as a whole. The accompanying Schedule of Investment Income is presented for additional analysis and disclosure purposes and is not a required part of the basic financial statements for the Board of Investments. The schedule has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

August 31, 1988

STATE OF MONTANA BOARD OF INVESTMENTS
SCHEDULE OF INVESTMENT INCOME (Schedule B)
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

<u>Fund</u>	<u>Cash</u> ⁽¹⁾	<u>Current</u> <u>Amortization</u>	<u>Gain (Loss)</u> <u>on Bond Swaps</u>	<u>STIP</u> <u>Income</u>	<u>Mont-Comp</u> <u>Income</u>	<u>Modified</u> <u>Income</u>	<u>Accrued</u> ⁽²⁾ <u>Income</u>	<u>Net</u> <u>Income</u>
Teachers' Retirement System	\$ 43,884,988	\$ 668,641	\$ (819,031)	\$ 1,426,358	\$ 5,275,381	\$ 50,436,337	\$1,277,820	\$ 51,714,157
TRS-Minnie Fullam				1,419	2,029	3,448	(3)	3,445
Public Employees' Retirement System	54,047,448	928,794	(1,083,339)	2,482,078	5,973,545	62,348,526	1,687,796	64,036,322
Firefighters' Unified Retirement Sys.	1,896,796	(13,142)	16,852	99,866	98,244	2,098,616	146,849	2,245,465
Game Wardens' Retirement	761,177	6,327	(14,709)	18,012	77,457	848,264	(3,460)	844,804
Highway Patrol Retirement	1,701,271	24,366	(24,653)	33,977	136,943	1,871,904	55,152	1,927,056
Judges' Retirement	827,361	3,957	(6,375)	20,674	81,047	926,664	21,267	947,931
Police Reserve	2,338,171	(3,497)	(9,984)	73,088	121,841	2,519,619	25,824	2,545,443
Sheriffs' Retirement	2,298,220	651	(7,313)	63,206	139,654	2,494,418	22,849	2,517,267
Social Security				24,441		24,441	6	24,447
Volunteer Firemen	483,796	3,171	(2,722)	21,974		506,219	9,642	515,861
Uninsured Employers				37,136		37,136	8	37,144
Subsequent Injury	120,118	9,074		94,305		223,497	(4,995)	218,502
Workers' Compensation	3,466,247	171,611	(2,339)	154,613		3,790,132	(207,251)	3,582,881
Common School				686,361		686,361	3,918	690,279
Trust & Legacy	20,889,448	619,472	(570,134)			20,938,786	570,727	21,509,513
Coal Tax Park Acquisition	1,690,752	(48,860)	(28,798)	76,740		1,689,834	23,346	1,713,180
Permanent Coal Trust	30,375,927	(5,309)	(179,883)	4,380,329		34,571,064	723,628	35,294,692
Resource Indemnity	5,453,675	90,075	(98,269)	228,143		5,673,624	392,548	6,066,172
Educational Trust	5,127,499	33,862	(115,197)	804,303		5,850,467	(890,724)	4,959,743
BN Geraldine Settlement Connector				41,286		41,286	(553)	40,733
BN Geraldine Settlement				170,450		170,450	(104)	170,346
Airport Loans Special Revenue				101,492		101,492	(58)	101,434
Agency Insurance	335,781	1,904		312,105		649,790	(100,792)	548,998
Group Benefits	976,547	7,322		676,752		1,660,621	(124,515)	1,536,106
Treasurers'	1,941,190			13,085,734		15,026,924	379,418	15,406,342
Highway Complex Sinking				63,774		63,774	13	63,787
Rock Creek Mitigation	71,773	417		52,609		124,799	1,793	126,592
Debt Service Reserve	264,550	2,652		161,100		428,302	(91,774)	336,528
1984 Series A Bond Proceeds				265,249		265,249		265,249
1985 Series B Bond Proceeds	108,664	122		150,781		259,567	(45,829)	213,738
Real Property Trust	55,002	1,640		66,230		122,872	819	123,691
1985 Series A Bond Proceeds	28			39,068		39,096	(41)	39,055
Historical Society Donations				4,871		4,871	(8)	4,863
Charles Bair Trust				17,123	3,684	20,807	(6)	20,801
Series 1981				11,968		11,968	(28)	11,940
Long Range Building	177,132			369,665		546,797	(131,526)	415,271
Long Range Building Bonded Program				40,619		40,619	(221)	40,398
1983 Fish, Wildlife & Parks Program				66,111		66,111	14	66,125
Everett Lynn Trust				3,265		3,265	(7)	3,258
1985 Fish, Wildlife & Parks Program				133,697		133,697	(773)	132,924
Nongame Wildlife				878		878	(1)	877
Hail Insurance	25,475			256,113		281,588	39	281,627
Coast Trading Trust				11,080		11,080	(36)	11,044
Renewable Resource Development				72,840		72,840	(82)	72,758
Weed Control Trust	26,918	140		42,717		69,775	(12,645)	57,130
Forest Reserve				52,400		52,400		52,400

STATE OF MONTANA BOARD OF INVESTMENTS
SCHEDULE OF INVESTMENT INCOME (Schedule B)
FOR THE FISCAL YEAR ENDED JUNE 30, 1988
(continued)

<u>Fund</u>	<u>Cash</u> ⁽¹⁾	<u>Current Amortization</u>	<u>Gain (Loss) on Bond Swaps</u>	<u>STIP Income</u>	<u>Mont-Comp Income</u>	<u>Modified Income</u>	<u>Accrued</u> ⁽²⁾ <u>Income</u>	<u>Net Income</u>
Montana Tech				\$ 55,316		\$ 55,316	\$ 2	\$ 55,318
Potter Trust					\$ 3,965	3,965	5	3,970
Montana State University				425,211		425,211	43	425,254
Eastern Montana College				62,273		62,273	191	62,464
Dixon Endowment	\$ 3,828					3,828	(960)	2,868
William Murphy	1,266				25,986	27,252	(281)	26,971
Caras Endowed Scholarship					105	105		105
Bradley Trust					5,170	5,170	7	5,177
Teakle Trust					4,478	4,478	6	4,484
General Trust					1,629	1,629	2	1,631
Merritt-Wheeler Memorial				104	1,017	1,121	2	1,123
Water & Waste-water Operators				2,607		2,607	(1)	2,606
Livestock-Inspection & Control				112,396		112,396	30	112,426
Livestock-Animal Health ERA				44,535		44,535	20	44,555
Lands & Resource Development				9,051		9,051	(3)	9,048
Wheat Research & Marketing				39,068		39,068	43	39,111
Board of Oil & Gas				29,025		29,025	41	29,066
Montana Rural Rehabilitation				34,796		34,796	17	34,813
Local Impact				7,622		7,622	(169)	7,453
Agriculture-Commercial Fertilizer				2,549		2,549	(12)	2,537
Agriculture-Commercial Feed ERA				2,955		2,955		2,955
Agriculture-Grain Services				11,337		11,337	22	11,359
Agriculture-Alfalfa Seed				581		581	2	583
Woodville Highway Replacement				15,611		15,611		15,611
Guaranteed Student Loan Reserve				245,081		245,081	(194)	244,887
Workers' Compensation Building				11,016		11,016	(83)	10,933
Job Service Building				18,903		18,903	13	18,916
Moderate Rehabilitation Reserve				9,139		9,139	13	9,152
Operating Reserve				65,053		65,053	41	65,094
Warner Amendment				4,808		4,808	(12)	4,796
1985 WMC				97,196		97,196	(5)	97,191
Amoco Oil Overcharge				660		660		660
Northern Montana College				45,530		45,530	111	45,641
University of Montana				450,371		450,371	540	450,911
Western Montana College				8,924		8,924		8,924
Other STIP - Local Governments				4,036,991		4,036,991	4,722	4,041,713
Hamm Endowment				20	61	81	4	85
Board of Oil & Gas II				1,028		1,028	2	1,030
Noxious Weed Control				13,319		13,319	41	13,360
Health RIT Hazardous Waste				25,393		25,393	189	25,582
Anhydrous Ammonia				415		415	1	416
1987 Series A Coal Severance				793,969		793,969	2,672	796,641
State 911 Program				45,632		45,632	175	45,807
Highway 1987 Bond Proceeds	3,102,183	1,225,393		2,915,093		7,242,669	946,647	8,189,316

STATE OF MONTANA BOARD OF INVESTMENTS
SCHEDULE OF INVESTMENT INCOME (Schedule B)
FOR THE FISCAL YEAR ENDED JUNE 30, 1988
(continued)

<u>Fund</u>	<u>Cash</u> ⁽¹⁾	<u>Current</u> <u>Amortization</u>	<u>Gain (Loss)</u> <u>on Bond Swaps</u>	<u>STIP</u> <u>Income</u>	<u>Mont-Comp</u> <u>Income</u>	<u>Modified</u> <u>Income</u>	<u>Accrued</u> ⁽²⁾ <u>Income</u>	<u>Net</u> <u>Income</u>
1987 Series C Proceeds				\$ 7,974		\$ 7,974	\$	7,974
Water Development Bond				42,877		42,877	\$ (66)	42,811
Vouchers Reserve				366		366		366
Stripper Wells Oil	\$ 113			43,660		43,773	100	43,873
Energy Conservation				177,877		177,877	516	178,393
Exxon Weatherization				161,693		161,693	361	162,054
Energy Share Fund				12,191		12,191	22	12,213
West Yellowstone Roof Repair				1,168		1,168	2	1,170
Exxon Energy Conservation				176,130		176,130	380	176,510
Stripper Energy Conservation				22,772		22,772	64	22,836
Stripper Building				136,611		136,611	406	137,017
Exxon Institution Conservation				61,331		61,331	188	61,519
Exxon Energy Extension				12,912		12,912	29	12,941
Diamond Shamrock				13,855		13,855	38	13,893
Stripper Agriculture				3,595		3,595	1	3,596
Abandoned Mine Land Trust	(6)	\$ 130		34,380		34,504	2,575	37,079
Highway Oil Overcharge				10,964		10,964	45	11,009
Rail Construction Loan				152,258		152,258	(53)	152,205
Airport Debt Service				25,026		25,026	(8)	25,018
1984-85 Series A Debt Service				14,971		14,971	40	15,011
1985 Series B Debt Service Fund				9,530		9,530	(28)	9,502
1987 Series A Broadwater				20,760		20,760	140	20,900
1987 Series C Debt Service				191		191		191
1987 Series A & C Service Reserve				82,797		82,797	714	83,511
Highway 1987 Debt Service	59,148			91,798		150,946	(65,323)	85,623
Highway 1987 Debt Service Reserve	354,654	30,706		13,310		398,670	77,996	476,666
Highway 1987 Debt Issuance				245		245	(4)	241
Alfalfa Leafcutting Bees				132		132	1	133
Group Insurance				308,364		308,364	(4)	308,360
Foster Children				3,588		3,588		3,588
Child Support				2,113		2,113	143	2,256
Protested Property Tax BN				851,825		851,825	(2,433)	849,392
Protested Property Tax Union								
Pacific				11,162		11,162	(30)	11,132
Protested Property Tax Soo Lines				394		394	(1)	393
Tax Anticipation Notes				209,841		209,841		209,841
Insurance Liquidated Bonds				5,300		5,300	46	5,346
DNR Weed Control				4,089		4,089	(8)	4,081
Clay Endowment Helena Vo-Tech				344		344		344
Lula Mae Clay				872		872		872
MVTC Endowment Missoula Vo-Tech				313		313	3	316
TOTALS	<u>\$182,867,140</u>	<u>\$3,759,619</u>	<u>\$(2,945,894)</u>	<u>\$39,370,157</u>	<u>\$11,952,236</u>	<u>\$235,003,258</u>	<u>\$4,697,780</u>	<u>\$239,701,038</u>

(1) Cash receipts from All Other Funds investments.

(2) Net change of the Fiscal Year 1988 and Fiscal Year 1987 investment income accruals.

STATE OF MONTANA
BOARD OF INVESTMENTS

AGENCY REPLY

DEPARTMENT OF COMMERCE
BOARD OF INVESTMENTS



TED SCHWINDEN, GOVERNOR

CAPITOL STATION

STATE OF MONTANA

(406) 442-1970

TELEFAX (406) 449-6579

HELENA, MONTANA 59620

November 10, 1988

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Montana Legislative Auditor

Scott A. Seacat, Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

The following is our response to your recommendation contained in the audit of the Board of Investments for the fiscal year ending June 30, 1988.

Recommendation #1

The Board has terminated the systems development project which the auditors reviewed. A new "off-the-shelf" system has been purchased which has extensive documentation and users manuals. The system which is being installed is in use by many money managers in all areas and has been successfully used for several years. We believe the new system will address all of the concerns raised in the audit report.

We wish to thank the audit supervisor and staff for the professional manner in which the audit was conducted.

Sincerely,

A handwritten signature in cursive script, appearing to read "Dave Lewis".

Dave Lewis
Executive Director

/clp

Enclosure

